



Template for comments

Public consultation on the ECB guide to internal models – risk-type-specific chapters

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General comments

GENERAL COMMENTS CREDIT RISK

The EBF, on behalf of its Members, supports the publication of the ECB's interpretation of the Single Rulebook as it clarifies the ECB's expectations of the banks subject to its supervision. This aids our common goal to enhance the confidence in the risk-based capital framework in general.

With regard to our comments on specific paragraphs, in many cases a simple clarification is sought. However, our Members are concerned that the ECB may be moving beyond the Single Rulebook being developed by European supervisors conjointly through the work of the EBA. We believe that the principle that the ECB should interpret the single rulebook but not go beyond it should be upheld. In particular

The proposed text appears to be front-running non-finalised elements of the single rulebook, for example

The requirements on LGD are still subject to a separate EBA consultation (section 5)

The EBA has deliberately omitted requirements on CCF. The ECB should follow suit (section 6)

Several innovations on the existing single rulebook such as tests on subranges of application (paragraphs 87 and 103), MoC requirements (paragraphs 80 and 142), human judgement (paragraph 48) and data quality (section 2)

The ECB appears to be mandating specific modelling philosophies, for example

There are paragraphs describing PiT requirements for PD (paragraphs 54, 61, 83 and 142)

There is an oversimplification in the understanding of homogeneity (paragraphs 54 – 59)

There are paragraphs (126) describing the correct forward-looking interpretation of LGD in default but in practice, banks are observing that an LRA interpretation is being enforced in order not to permit a reduction in RWA requirements for defaulted assets in a downturn period contrary to the CRR.

We believe that these should be brought back into alignment with the Single Rulebook as it is currently agreed. Additionally, there are areas where the draft rules may have significant unintended consequences, for example



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The application of MoC at individual grade level (paragraph 142) appears likely to cause significant distortions to risk measurement and RWA estimation

The provisions on external scoring and data appear likely to prohibit their use in practice (section 3)

These areas should be re-examined and pragmatic solutions sought

GENERAL COMMENTS MARKET RISK

We advocate that the TRIM Guide should not front-run the finalisation of the market risk framework by the Basel Committee by introducing some concepts that are not defined in the applicable requirements defined in Regulation (EU) 575/2013. The ECB should wait for the transposition in the European legislative framework of the latest international agreements before applying any new concept of this regulation.

The introduction of a Risks not in the Model Engines framework suggests that Article 367 rules generically risk engines and that RNIME can be included in such category becoming an integrating part of the IMA. On the other hand CRR explicitly mentions VaR, SVAR, IRC and CRM as IMA engines not mentioning anything about Risks Not in the Model Engine other than by expressing in 367.1.a that a model shall “capture accurately all material price risks”. The stance of the Guide seems hence over-reaching both in requiring RNIM to have the same standing of a component of an Internal Model (initial approval, model change RTS) and in the identification of the phenomena that it aims to rule that go far beyond the “price risk”. We therefore would suggest to revert to the 2017 concept of RNIM avoiding any extension of the current IMA perimeter. RNIM should be simply complementing the existing IMA metrics with ad-hoc add-ons to address material deficiencies in the quantification of the price risks.

The introduction of capital add-ons to address material deficiencies in the quantification of the price risks should however not lead to any double-counting of the same phenomenon. Indeed, if the model deficiency was also the root cause of a VaR over-shooting, to the extent that the dedicated capital add-on was sufficient to compensate the VAR exceedance, it would appear fair that an increase in the VaR/sVaR multiplier was not triggered

Template for comments

Public consultation on the ECB guide to internal models – risk-type-specific chapters

Please enter all your feedback in this list.

When entering feedback, please make sure that:

- each comment deals with a single issue only;
- you indicate the relevant chapter/section/paragraph, where appropriate;
- you indicate whether your comment is a proposed amendment, clarification or deletion.

Deadline: 07 November 2018

ID	Chapter	Section	Paragraph	Page	Type of comment	Detailed comment	Concise statement as to why your comment should be incorporated	Name of commenter	Institution	Personal data
1	Foreword		3	3	Amendment	The ECB guide should clearly specify that the draft guidelines and non-finalised RTS will not apply until and unless they are finalised.	The ECB Guide refers to several EBA mandates to develop Level 2 texts, which are not yet in final version. Banks should not be expected to be compliant with articles which are not yet legally binding.	Saif Chabi, Sarah Schmidke	European Banking Federation	Publish
2	Foreword				Clarification	Further clarifications should be provided on the relations between the TRIM guide and other regulatory texts and on which text should be considered as the reference one.		Saif Chabi, Sarah Schmidke	European Banking Federation	Publish
3	Credit Risk	2.2 IT systems: infrastructure and implementation testing	6	6	Clarification	Further clarifications should be provided regarding the ECB expectation that Banks should maintain a register that includes all current and past versions of elements of a rating system. It is burdensome and unnecessary to save data with no limit in time. Data storage could alternatively be harmonised with general and absolute limits or requirements as in accounting (10 years max). The RTS on IRB assessment methodology (page 12) only requires 3 years for the register of rating systems that includes documentation on the design and operational details of the rating system. It should not be required to save or maintain a register longer than necessary for this purpose. There should be a distinction between well-documented, as described in the assessment methodology (page 17), and unlimited.	It is burdensome and unnecessary to require banks to save all current and past version of elements of a rating system. This should be harmonised with EBA PD and LGD GL and IRB assessment methodology.	Saif Chabi, Sarah Schmidke	European Banking Federation	Publish
4	Credit Risk	2.2 IT systems: infrastructure and implementation testing	7	7	Amendment	Banks will follow rules related to accuracy and completeness. However, there can never be completely error free models. "Error free" should be amended to "substantively error free" to harmonise the wording with EBA guidelines, RTS and ITS	Error free should be amended to "substantively error free" to harmonise the wording with EBA.	Saif Chabi, Sarah Schmidke	European Banking Federation	Publish
5	Credit Risk	2.3 Policies, roles and responsibilities in data processing and data quality management	13	8	Clarification	The term "IT-owner" is not mentioned in the IRB assessment methodology, nor in the CRR nor in the PD & LGD GL. This term is ambiguous. There may be system owners, data-owners, ... Banks should use the appropriate definition according to their individual internal structures and their defined split of responsibilities.	GL11 lists the various types of risks, but does not mandate how banks must be organised. It should be clarified if "IT-owner" is the correct term to use.	Saif Chabi, Sarah Schmidke	European Banking Federation	Publish
6	Credit Risk	2.4 Data quality management framework	14-29	9-13	Amendment	Data Quality: the general framework is considered to be very burdensome. We suggest greater alignment with BCBS 239. More specifically, a new paragraph should be inserted (before §14) specifying that all requirements only apply to Critical Data Elements (CDE).	The general framework is considered to be very burdensome. We suggest greater alignment with BCBS 239 requirements to ensure consistent implementation of data quality standards.	Saif Chabi, Sarah Schmidke	European Banking Federation	Publish
7	Credit Risk	2.4 Data quality management framework	15a, 17, 18	9, 10	Clarification	In paragraphs 15a and 17 it is stated that data quality management activities shall be independent of data processing activities. According to Paragraph 18, it is considered "good practice [...] to have a dedicated independent unit [...] for the management of data quality". It should be clarified that a completely independent unit with exclusively dedicated staff etc. is not obligatory.	Establishing an independent unit just for data quality management would incur disproportionately high administrative burdens and is not required in the referenced legal background.	Saif Chabi, Sarah Schmidke	European Banking Federation	Publish
8	Credit Risk	2.4 Data quality management framework	19 and seqq.	11 and seqq.	Clarification	The definition of "data quality management framework" should be more precise. Does this definition relate to internal model parameters? Such a "framework requirement" is not mentioned in GL 11. The GL on PD and LGD, and the IRB assessment methodology for IRB set clear expectations for accuracy and completeness.	The definition should be narrowed in order to fit with the scope, i.e. data quality with regards to rating models, parameters etc. If it is intended that the data quality management framework is required for non-IRB activities. The framework and, its legal basis, should be clarified.	Saif Chabi, Sarah Schmidke	European Banking Federation	Publish
9	Credit Risk	3.2 Use of external data	34, 35	15	Clarification	The analyses requested in section 3.2 for the use of external data risk being not sustainable, since they entail a level of disclosure close to the one available for internal data (for example representativeness analysis of par. 35). This disclosure level is usually not possible for data providers. In practice, these requirements might lead to the impossibility of adopting external data (unless with the systematic introduction of a material Margin of Conservatism not linked to a model deficiency, but only to the limited disclosure of external providers). In particular, for shadow rating models, the external data, which are the target of the estimation, are expected to be structurally not perfectly representative of the application portfolio (because rating agencies cover more US companies than EU ones). Moreover, inconsistency arises with the top down approach foreseen in EBA/CP/2018/10 (on the conditions to allow institutions to calculate KIRB in accordance with the purchased receivables approach under Article 255 of CRR), in which the methodological approach is based on the use of external data, due to the impossibility to leverage on internal ones. Therefore the analyses required by ECB guidelines jeopardise the new securitisation framework aiming at revamping the securitisation business in Europe.	The proposed requirements severely limit the use of external data. The analyses required by the guidelines jeopardise the new securitisation framework aiming at revamping the securitisation business in Europe.	Saif Chabi, Sarah Schmidke	European Banking Federation	Publish
10	Credit Risk	3.2 Use of external data	36	15	Amendment	Varying data inputs to the model implies to get access to the data which could be extremely difficult and expensive. Rating agencies disclose a description of their approach (incl. main hypothesis). However they do not disclose the detailed formula publicly. Therefore the ECB should take into account this limitation and limit the reference to controls on external data.	The details of external scores and implied models are not publicly disclosed. The proposed requirements severely limit the use of external data	Saif Chabi, Sarah Schmidke	European Banking Federation	Publish
11	Credit Risk	3.3 Use of external bureau scores or external ratings as input variables in the rating process	37	16	Clarification	The previous comments regarding the level of disclosure required for external data apply in particular in the case of external credit bureau scores. In addition information on the structure and nature of external scores and their key drivers are required by par. 37(b)-(e) but are usually not reported by credit bureau. This would hinder the recourse to a typically powerful data source for risk differentiation purposes, limiting, in violation of regulatory requirements themselves, both accuracy of the estimates and the information completeness of the rating system (the Credit Bureaus are usually relevant information for rating assignment especially in the "through-the-door" evaluation for new clients/new applications on Retail segments). Therefore we suggest to better clarify and describe in the detail a minimum set of information that are necessary to be disclosed, eventually providing a dedicated Guide on this which should be subject to a consultation process targeted towards both the banking system and Credit Bureaus.	Requirements on external scores might compromise their adoption in the future. This severely limits the use of a typically powerful data source for risk discrimination.	Saif Chabi, Sarah Schmidke	European Banking Federation	Publish
12	Credit Risk	3.3 Use of external bureau scores or external ratings as input variables in the rating process	37 f)	16	Clarification	Use of external scores/ratings – why should external scores not be replicated (in an internal format), should we always add internal factors?	Further clarification is required on how the replication is expected to be implemented in relation to possible other factors included. In particular, a bank should not be required to add internal factors where it cannot be shown that doing so would materially improve model performance.	Saif Chabi, Sarah Schmidke	European Banking Federation	Publish

13	Credit Risk	3.5 Use of purchased rating systems or models (pool models)	42 c)	18	Amendment	Point c of paragraph 42 requires institutions participating in a pool model to align their processes for managing distressed obligors. This would constitute an intrusion into the business operations of these institutions. Moreover, the relevance to PD estimation is unclear. This requirement should be deleted.	In general, this requirement goes far beyond an assessment of internal models. We do not see a legal basis for such a provision. Moreover, the relevance to PD estimation is unclear.	Saif Chabi, Sarah Schmidke	European Banking Federation	Publish
14	Credit Risk	3.5 Use of purchased rating systems or models (pool models)	42 d)	18	Amendment	Point d of paragraph 42 includes that the "[...] Validation of the pool model, including testing of discriminatory power and predictive power, should be applied by each institution on its own portfolio." If read in connection with footnote 21, this requirement should be removed. Indeed in the case of pooled models across legal entities of the same banking group (i.e. Groupwide models), the perimeter of application is related to the entire group of entities. As such it should be estimated (and consequently validated) on a groupwide perimeter. Thus the measurement of rank ordering and predictive power at single legal entity level would provide a partial (and potentially biased) view. We propose the following amendment of footnote 21: "The paragraphs below are also relevant in cases where institutions use pooled data that are generated from institutions belonging to the same banking group, with exception of models developed and applied at overall group level, on perimeters for which the geographical location of the booking is not relevant."	The validation requirements on group-wide models are not consistent with the group-wide nature of the models themselves	Saif Chabi, Sarah Schmidke	European Banking Federation	Publish
15	Credit Risk	3.7 Use of human judgement	48	19	Amendment	We suggest to delete the end of the paragraph "To this end, where human judgement is used to greater extent because of the low number of available internal observations, institutions should apply a higher MoC to their estimates to account for additional uncertainty". The application of MoC is fully detailed in the EBA Guidelines on PD-LGD estimation and the treatment of defaulted exposures. The chapter 4.4.1 of these Guidelines especially paragraph 37 does not mention "human judgement used to a greater extent" in the identified deficiencies. Also, institutions do not consider the use of human judgement as a deficiency but an additional input to complement modelling effort. Therefore, we consider the proposed requirement as unjustified and not in accordance with the Single Rulebook.	The application of MoC is fully detailed in the EBA Guidelines on PD-LGD estimation and the treatment of defaulted exposures. These Guidelines do not mention "human judgement used to a greater extent" in the identified deficiencies. The proposed requirement as unjustified and not in accordance with the Single Rulebook.	Saif Chabi, Sarah Schmidke	European Banking Federation	Publish
16	Credit Risk	4.1 Structure of PD models	50-52	20, 21	Clarification	A minimum set of specific risk drivers is provided by ECB. However, EBA provides a general list as well (section 5.2.2 in the PD, LGD GL) but states that risk drivers may vary over time and that they should be adequate	The list of risk drivers should be harmonised with the one included in the EBA GL PD and LGD	Saif Chabi, Sarah Schmidke	European Banking Federation	Publish
17	Credit Risk	4.1 Structure of PD models	52	21	Amendment	The required model validation on sub-portfolio level would create massive additional burdens while the gain of knowledge is questionable. For example, we doubt that splitting portfolios geographically is really meaningful in the case of globally active borrowers. Model validation on sub-portfolio level should therefore not be considered obligatory.	These requirements are not included in the existing legal background. Furthermore, the added value of these provisions is rather low compared to the huge additional efforts to be made by the institutions.	Saif Chabi, Sarah Schmidke	European Banking Federation	Publish
18	Credit Risk	4.1 Structure of PD models	54	22	Clarification	According to this paragraph, institutions should ensure a meaningful differentiation of risk taking into account in particular the distribution of obligors or facilities, the homogeneity of obligors or facilities assigned to the same grade or pool and the different levels of risk across obligors or facilities. However, it is not clear which sample to consider in order to perform this assessment. In particular, when the risk differentiation function is built with a recent sample representative of the application portfolio, it is unclear whether the meaningful differentiation should be performed using an equivalent sample to that used for the risk differentiation (i.e. a recent sample) or if it is required to assess the appropriateness of the risk differentiation in terms of homogeneity within each grade or pool and heterogeneity between grades or pools through the whole calibration sample used for the risk quantification. In other words, is it enough to test, for instance, the homogeneity at each date or is it necessary to test the homogeneity among different dates? If it were the latter case, how should we perform the comparison taking into account that the rating philosophy may affect the composition of each grade due to grade migration associated to economic circumstances?		Saif Chabi, Sarah Schmidke	European Banking Federation	Publish
19	Credit Risk	4.1 Structure of PD models	54, 56, 59	22-24	Amendment	The definition of a grade or pool fails to account for the behavioural element of grade or pool assignment. For example, the credit management process may distinguish between 'Satisfactory' grades and 'Criticised' grades. It may be the case that a satisfactory grade and a criticised grade share the same or similar LRA. Notwithstanding this, these grades are not homogeneous with each other. The behaviour of each class (satisfactory or criticised) can be expected to be different over an economic cycle. The principles of risk differentiation need to be broader and not only numerically defined.	Banks use grades/pools to manage risk and to manage individual borrowers/facilities Risk is characterised not only by PD (for example) in a given economic scenario but also by its direction, procyclicality and type of management best applied to it. Grades/pools may represent more than just a numerical PD. Examples include: (1) obligors/facilities with different risk drivers, assessed by different rating systems but assigned to the same PD grade. (2) Obligors/facilities subject to the same rating system but with additional behavioural characteristics influencing their credit management and/or affecting their expected future behaviour such as 'satisfactory' vs. 'criticised'. The wording of paragraphs 54 – 56 may be interpreted to restrict the use of masterscales and/or credit management techniques. Moreover, the wording of paragraphs 54 – 56 is inconsistent with similar PDs being arrived at via different rating systems.	Saif Chabi, Sarah Schmidke	European Banking Federation	Publish
20	Credit Risk	4.1 Structure of PD models	55 a)	22	Clarification	"Separate targets and tolerances may be defined for initial development and ongoing performance": please clarify that this permits lower standards for ongoing performance post-development.		Saif Chabi, Sarah Schmidke	European Banking Federation	Publish
21	Credit Risk	4.1 Structure of PD models	55 a)	22	Clarification	Clarify that different targets and tolerances may be applied to different models/portfolios.		Saif Chabi, Sarah Schmidke	European Banking Federation	Publish
22	Credit Risk	4.1 Structure of PD models	58, 59	23, 24	Clarification	With regard to the homogeneity within rating grades and the differentiation across rating grades or pool tests, we expect additional clarifications about the analysis to be performed in case of Low Default Portfolios (LDPs). Indeed, if the number of observed defaults is too low, the results could lead to counterintuitive outcomes. Moreover, in order to obtain more robust results, one could decide to aggregate adjacent rating grades with potential problems arising in terms of excessive concentration or in terms of stability across the years.		Saif Chabi, Sarah Schmidke	European Banking Federation	Publish

23	Credit Risk	4.1 Structure of PD models	61	24	Clarification	Greater clarification should be provided on the paragraph 'As a consequence of the above, institutions' grade assignment dynamics should also adequately anticipate and reflect in the assignment of grades the potential realisation of the risk during the longer time horizon. For clarity, this does not mean that grades remain stable during the longer time horizon in the event of changes in idiosyncratic risk'. By mentioning that grades do not need to remain stable under changes in idiosyncratic risk, should we assume that they should under changes in macroeconomic circumstances (i.e. that there should not be any trend in the direction of migrations across risk buckets)? It must be noted that in the event of following a point in time rating philosophy it is expected that systematic grade migrations will occur when economic circumstances change. In order to avoid an undue effect on the cyclicity of capital requirements such rating philosophy can be complemented with a calibration philosophy aiming at calculating long-run averages at the level of calibration segment. The expected outcome of the whole procedure is that the grade migration, for instance to worse credit quality grades during a downturn, is somehow counteracted by better PDs at grade level (the opposite would happen in an upturn). In such a way the use of point in time risk ranking models is reconciled with the expected long-run nature of regulatory PDs and the avoidance of extensive cyclicity of capital requirements. Whether such an approach is acceptable in light of the ECB expectations should be clarified, as typically rating and scoring models used for risk differentiation purposes follow a point in time philosophy.	There is no legal basis to require a 2/3 year predictive horizon. Moreover, imposing such a requirement would limit the relationship between IRB models and models for other related purposes (e.g. IFRS 9). This would be burdensome. The determination of such a horizon should be left to the discretion of the bank as it sees fit.	Saif Chabi, Sarah Schmidke	European Banking Federation	Publish
24	Credit Risk	4.1 Structure of PD models	61 b)	24	Deletion	The proposed horizon of 2 to 3 years is provided without justification. Instead the underlying desired property or principle should be required. What criteria should be used to determine the appropriate horizon? The choice of a two to three years horizon is not duly justified. It might depend on the type of portfolio which is modelled. We suggest deleting bullet point (b).	There is no legal basis to require a 2 to 3 year predictive horizon. Moreover, imposing such a requirement would limit the relationship between IRB models and models for other related purposes (e.g. IFRS 9). This would be burdensome. The determination of such a horizon should be left to the discretion of the bank as it sees fit.	Saif Chabi, Sarah Schmidke	European Banking Federation	Publish
25	Credit Risk	4.1 Structure of PD models	61	24	Amendment	Paragraph 61 appears to limit or prescribe a model philosophy. Is this the ECB's intent? If so, the characteristics of an acceptable rating system should be provided.	Paragraph 61 appears to limit or prescribe a model philosophy. Is this the ECB's intent? The Single Rulebook does not prescribe a specific PD modelling philosophy.	Saif Chabi, Sarah Schmidke	European Banking Federation	Publish
26	Credit Risk	4.1 Structure of PD models	62 c)	25	Clarification	Greater clarification should be provided to explain the main drivers to perform a consistent comparison between external and internal grade assignment dynamics to evaluate their differences. In addition more details would be welcome on how to propose 'the necessary adjustments to compensate for any differences' between grade assignment dynamics of internal and external ratings. Is it the expectation that the internal grade dynamics should prevail?		Saif Chabi, Sarah Schmidke	European Banking Federation	Publish
27	Credit Risk	4.1 Structure of PD models	64	25	Clarification	Further clarification should be provided regarding the treatment of a guaranteed party, entering financial difficulty, whose obligations are met in full by its guarantor. Is the guaranteed party deemed to have defaulted?		Saif Chabi, Sarah Schmidke	European Banking Federation	Publish
28	Credit Risk	4.2 PD risk quantification	78 b)	29	Amendment	No clarification is provided for cases where the portfolio linked to the rating system is volatile in its composition. For example, exposures to other banks or to sovereigns. As even facilities with no exposure and where there is no commitment at a reference date may default during the year, an exclusion of those exposures may seem in some cases to be inappropriate.		Saif Chabi, Sarah Schmidke	European Banking Federation	Publish
29	Credit Risk	4.2 PD risk quantification	80	30	Clarification	Paragraph 80 requires institutions to analyse any differences between external and internal observed average default rates. It is stated that this analysis should include the adequacy of the Margin of Conservatism (MoC). We do not see the link here. It should be clarified that diverging observed default rates do not necessarily give reason to impose a MoC.		Saif Chabi, Sarah Schmidke	European Banking Federation	Publish
30	Credit Risk	4.2 PD risk quantification	83	31	Clarification	It should be clarified if the ECB's expectation is that the PD estimates at grade level should be roughly the same whether following a 'grade level' or a 'calibration segment level' technique, following the terminology used in the EBA PD and LGD Guidelines. It must be noted that if risk grades are created by applying a banding procedure over a point in time risk ranking model, taking long-run averages at risk grade level will result in stable PDs at grade level but in cyclical capital requirements at portfolio level given grade migration. The PDs at grade level obtained in such a way will not be similar to those obtained when applying a calibration segment level approach in which it is ensured that the long-run average is attained at the level of calibration segment. Typically, in the presence of grade migration, a calibration level approach might result in varying long-run PDs at grade level across the cycle, thus they will not be similar to those obtained under a grade level approach if the banding is the same. In general it would be most welcome that comments related to PD risk quantification were put in the context of the terminology and the range of calibration techniques considered acceptable by the EBA PD and LGD Guidelines.	Is it the intent of the ECB to impose a specific modelling philosophy for PD? The Single Rulebook does not prescribe a specific PD modelling philosophy.	Saif Chabi, Sarah Schmidke	European Banking Federation	Publish
31	Credit Risk	4.2 PD risk quantification	85, 86	32	Clarification	Some clarifications should be provided about the mapping between internal and external ratings. Indeed, the following aspects should be considered: - no full disclosure is available about the criteria used by the external organisations; - the set of "common obligors" could be very small: the rated counterparties by an external organisation (e.g. rating agency) are usually a small share of the specific Institution's portfolio (e.g. Large Corporate or Institutions); - the sample of common obligors could be non-representative of the application portfolio (for example, for the reason described at the previous point). Moreover, it is unclear if the mapping should be based on a comparison between the observed default rates for the internal and the external rating grades or according to a general coherence between the two evaluations (e.g. determine which is the prevailing internal rating grade for each external rating grade). However, in such analysis, a certain degree of human judgment (expert-based approach) should be allowed, in particular if the sample under evaluation is small or with few defaults. Finally, the ECB should clarify if this section (e.g. article 85-86) should also be applied if the mapping between internal and external rating classes is used by the Institution not for the PD quantification but for managerial purposes or process-related phase (e.g. override process).		Saif Chabi, Sarah Schmidke	European Banking Federation	Publish
32	Credit Risk	4.2 PD risk quantification	87	33	Amendment	These requirements are deemed overly conservative. In particular, bullet point (f) should be deleted. The calculation of default rates on sub-ranges of application is not justified for several reasons. For modelling reasons, institutions may gather several portfolios in the same model (for example a model on Large Corporate). Therefore, some sub-range portfolios may suffer from a low number of defaults.	The calculation of default rates on sub-ranges of application is not justified	Saif Chabi, Sarah Schmidke	European Banking Federation	Publish

33	Credit Risk	5.1 Realised LGD	97	38	Clarification	The guide refers to the "artificial cash flow" method of the EBA GL, which were indeed included in the final EBA GL, but not present in the consultative paper. The 'artificial cash flow' method should be applied as described only when economically justified. It should be allowed in justified cases to use a realised loss (before costs) of zero for cured cases. For example, in the case of mortgage loans that are in default due to contagion from another loan and that are repaid normally there is no economic loss. The 'artificial cash flow' method, however, would mechanically imply such an economic loss	Saif Chabi, Sarah Schmidke	European Banking Federation	Publish
34	Credit Risk	5.1 Realised LGD	96	37, 38	Amendment	The LGD computation at facility level is a general principle that can be shared. Nevertheless, there can be some cases where a more aggregated computation is necessary not only due to a legally enforceable recovery process but also to account for the mix effects of the cash flows recorded. This is in particular the case for short-term products where other effects recorded on the current account are often also the result of the combination of other short term facilities (i.e. self-liquidating invoices where the effects are reflected in the current account). This is not an exceptional deviation but a "structural" practice. For this reason a separate computation for those cases would result in an incorrect economic loss. An amendment to the Article proposed could include among the cases where a more aggregated computation is allowed also the cases where the bank can demonstrate that LGD by facility would not correctly reflect the real economic loss observed and therefore illustrate that it is not an exceptional deviation but a "structural" practice.	Saif Chabi, Sarah Schmidke	European Banking Federation	Publish
35	Credit Risk	5.1 Realised LGD	97 a)	38	Amendment	It should be clearly underlined that a coherent approach has to be adopted between LGD and CCF on additional drawings. Therefore, if it is required to discount additional drawings in the LGD, the same approach has to be applied for CCF. The following paragraph: "Where institutions include additional drawings after the moment of default to estimate CCFs, these additional drawings discounted to the moment of default are added to the outstanding amount at default in the denominator (paragraphs 139-142 of the EBA GL on PD and LGD). In other words, institutions should ensure that the exposure used for CCF estimation is consistent with the denominator of the LGD." should be amended as follows: "Where institutions include additional drawings after the moment of default to estimate CCFs, these additional drawings discounted to the moment of default are added to the outstanding amount at default in the denominator (paragraphs 139-142 of the EBA GL on PD and LGD). The discounted additional drawings have to be included as well in the CCF calculation. In other words, institutions should ensure that the exposure used for CCF estimation is consistent with the denominator of the LGD."	Saif Chabi, Sarah Schmidke	European Banking Federation	Publish
36	Credit Risk	5.1 Realised LGD	97 b)	38	Amendment	It should be clarified how economic loss should be calculated in the case of facilities that return to a non-default status. To the extent that the bank can demonstrate that, whenever a facility returns to non-default status after having missed some payments, the customer pays the interest agreed in the contract origination and interests accrued due to payment delay (plus, potentially, penalty fees) it should be possible to assign a zero realised LGD to that default event (assuming any cost incurred during the recovery period is also covered or is negligible). The same argument applies to the so-called subjective defaults in which the customer keeps repaying the debt and subsequently the entity decides to move the customer to a non-default situation. Recognizing a loss in any of these circumstances would not be aligned with the Bank's procedures and the purpose of capital calculation.	Saif Chabi, Sarah Schmidke	European Banking Federation	Publish
37	Credit Risk	5.1 Realised LGD	98	39	Amendment	It should be clarified that the restructuring involves only previously defaulted facilities or cases where the measures granted determine the default of the customer and not commercial practices where the bank modifies the contractual conditions without classifying the client as a default. For example, the renegotiation of the interest rate with a Performing customer does not determine automatically the default and therefore must be out of the scope of this Article. Given this premise, the following section "where institutions open new facilities to replace previously defaulted facilities as part of restructuring or for technical reasons, the realised loss should reflect the decrease in the degree of financial obligation arising from changes in the contractual conditions (i.e. material forgiveness or postponement of payment of principal, interest, or fees). The amount by which the financial obligation has diminished should be calculated under paragraph 51 of the EBA GL on the definition of default." seems to contradict the principle of economic loss. In fact, the changes in contractual conditions are not reflected in a cash flow but are related to a financial concept which is in general out of the LGD scope. It is therefore requested to amend this Article to be compliant with the economic loss definition.	Saif Chabi, Sarah Schmidke	European Banking Federation	Publish
38	Credit Risk	5.1 Realised LGD	100	39	Clarification	On PD and LGD GL (EBA/GL/2017/16), paragraph 14 states that for the purpose of quantification of various risk parameters within a rating system, institutions should apply the same definition of default for the same historical observations used in different models. Institutions should also apply the same treatment of multiple defaults of the same obligor or exposure across internal, external and pooled data sources.	Saif Chabi, Sarah Schmidke	European Banking Federation	Publish
39	Credit Risk	5.1 Realised LGD	100 a)	39, 40	Amendment	We consider that setting the period length at 9 months is arbitrary but a period of 9 months is long enough to collect connected defaults. We think that considering a longer period of time without any given time horizon is not relevant. Moreover, these requirements go beyond what is required by the CRR and the EBA GL	Saif Chabi, Sarah Schmidke	European Banking Federation	Publish
40	Credit Risk	5.1 Realised LGD	100 b)	40	Deletion	The analyses required concerning the independence period appropriateness, based on analyses related to the curing process, are basically overlapping with the same analysis and monitoring foreseen for the probation period. It is noteworthy that the independence period should be applied on top of the probation period, within the EBA GL on Definition of Default (EBA/GL/2016/07 - par. 76). Therefore requiring a further analysis on this, would provide a smaller added value while requiring non-negligible additional efforts from Banks. In addition, the asymmetric treatment introduced by the independence period (i.e. relevant for LGD but not for PD) is critical and highly questionable.	Saif Chabi, Sarah Schmidke	European Banking Federation	Publish
41	Credit Risk	5.2 LGD structure	103	41	Deletion	We suggest deleting this paragraph. The performance of models should be assessed on the full range of application of rating systems. Assessing the performance on sub-ranges of application could lead to hasty conclusions as the portfolio used in the calibration will not be replicated in the back testing exercises. Also, for modelling reasons, institutions may gather several portfolios in the same model (for example a model on Large Corporate). Therefore, some sub-range portfolios may suffer from low numbers of defaults.	Saif Chabi, Sarah Schmidke	European Banking Federation	Publish

42	Credit Risk	5.2 LGD structure	105 b)	43	Deletion	The model component approach is designed to capture different aspects of the recovery process and allows achieving a LGD estimate which is the result of both observed losses and dynamics of cure/migrations within default statuses and between default and non-default. The request to demonstrate independence among the components is not clear and not coherent with other regulatory prescriptions. The goal of the model components is different and also the drivers tested are, in general, different; the burden of proof for institutions to provide empirical evidence of their independence has to be deleted from the document.		Saif Chabi, Sarah Schmidke	European Banking Federation	Publish
43	Credit Risk	5.3 Risk quantification	108	44	Amendment	We agree with the ECB's vision of the complexity of including facilities not sufficiently observed and that the establishment of a minimum observation period for recent defaults is essential to ensure the robustness of the results. However, the maximum period of 12 months established in this paragraph is deemed insufficient to permit to facilities that shortly return to non-default status to complete the recovery cycle (it is important to bear in mind that the facilities must overcome a probation period of at least 3 months plus at least 9 additional months to not be classified as a single default), adding uncertainty in the projection of incomplete files. This would result either in undue conservatism or in the need to apply complex projection techniques that could be associated to substantial MoC. With the aim of mitigating the risk in the LGD estimates due to facilities with short observation periods, it is proposed to amend the maximum of 12 months period and establish a maximum period of 18 months of observation when this period is adequately justified.		Saif Chabi, Sarah Schmidke	European Banking Federation	Publish
44	Credit Risk	5.3 Risk quantification	109	44, 45	Clarification	We understand that the maximum period of the recovery "time to workout" has to be duly justified and supported by studies. Can this "time to workout" be modified over a modal life cycle considering the Commission Delegated Regulation No 529/2014?	Banks in many Member States have high volumes of NPLs. As these are worked out, the time-to-workout can be expected to extend (supported by empirical evidence).	Saif Chabi, Sarah Schmidke	European Banking Federation	Publish
45	Credit Risk	5.3 Risk quantification	110	45	Clarification	Is vintage defined by year-of-observation-as-in-default or by year-of-default?		Saif Chabi, Sarah Schmidke	European Banking Federation	Publish
46	Credit Risk	5.3 Risk quantification	111	46	Clarification	The introduction of a concept of MRP and the adoption of 100% haircut for repossessed assets not yet sold is deemed as potentially over-conservative. Indeed we interpret this paragraph as a requirement to perform a sensitivity analysis in order to evaluate the impact of repossessed asset on the LRA LGD. Indeed, the adoption of 100% haircut for repossessed assets not yet sold (after the MRP) would be potentially over-conservative. As a matter of fact the repossession, as defined also within the EBA GL on PD-LGD, would entail a reduction of the credit exposure in force of the value of the assets. Although a haircut should be applied on repossessed asset value in order to factor uncertainty of the collateral value and level of liquidity, it should be kept in mind that the repossessed assets will be booked on the bank's balance sheet and risk weighted accordingly. Thus in case of repossession of assets falling under "other non credit-obligation assets" category pursuant to CRR Article 156 would be 100% risk-weighted in most of the cases. In case of repossession of equity assets (e.g. due to debt to equity swap, not infrequent in context of restructuring measures) the risk weight would be even higher (especially in view of the future Basel 4 context where only Standardised Approach would be admitted). Therefore envisaging a treatment like substantially realised incomplete workout for the repossessed assets that can take time for realisation as similar to ordinary cases of collateral execution would introduce a double counting conservative effect limiting therefore the rationale and the recourse of the repossession technique. Indeed the more time a repossessed assets will remain on the balance sheet of the Bank, instead of having cash in-flows, the more time it will be subject to capital requirements. Thus the adoption of haircut equal to 100% for repossessed assets not yet sold would end up in an increase of LGD (and RWA) on the credit obligations reference portfolio as well, doubling the penalty.	A 100% haircut for repossessed assets not yet sold implies a double counting of risk and is therefore overly conservative.	Saif Chabi, Sarah Schmidke	European Banking Federation	Publish
47	Credit Risk	5.3 Risk quantification	111 b)	46	Deletion	We understand the ECB's concern about the uncertainty in the estimation of the haircut to the value of the collateral and the necessity to understand the effect of this haircut. Nevertheless, this risk should be mitigated through the comparison with the estimated haircuts obtained from the observed sales of collaterals with similar characteristics (111 (a)) and with a detailed documentation about the process to estimate the haircut. In regards to the assessment proposed in paragraph 111 (b), the introduction of a 100% haircut for repossessed assets not yet sold is deemed overly-conservative so we consider the assessment useless in terms of identifying possible biases in the estimation of the haircut, therefore we suggest deleting this requirement.		Saif Chabi, Sarah Schmidke	European Banking Federation	Publish
48	Credit Risk	5.3 Risk quantification	113	46	Clarification	We are in favour of maintaining the optionality as it allows to take into account differences in approach to typical retail portfolios (rather facility based) and SME/corporate portfolios (rather based on aggregation of facilities)		Saif Chabi, Sarah Schmidke	European Banking Federation	Publish
49	Credit Risk	5.3 Risk quantification	113 a)	46	Clarification	For the cases where two or more facilities (for example mortgages) of the same obligor are assigned to the same facility grade or pool we deem appropriate to have two options as compliant for calculating the average. The first is to compute the average weighted by the total number of facilities within that facility grade. The second is to first take the exposure-weighted average realised LGD at the obligor level and then take the arithmetic average LGD weighted by the number of defaulted obligors within the LGD grade. Institutions should demonstrate that the approach they use does not distort the actual observed loss.		Saif Chabi, Sarah Schmidke	European Banking Federation	Publish
50	Credit Risk	5.3 Risk quantification	113 c)	47	Amendment	The proposed treatment of outliers is not symmetrical between the two tails. On the one hand, paragraph 113 (b) requires to floor the left tail to 0, on the other hand this paragraph requires the right tail to be treated appropriately (regarding data quality, risk drivers, assignment to grades or pools or assignment to calibration segments) without capping realised LGD values. The practice widespread among institutions to replace the observed value by a pre-defined value when the observed value is above the pre-defined one already partially safeguards the symmetrical approach between the two tails and definitely allows to avoid further biases in the estimated LGDs. It is not always possible to assign these outliers to one bucket or grade because they can pertain to different combinations of the risk drivers used to model the loss rates. The unintended consequence of the proposed practice could be an increase of the facilities excluded in the sample definition. We suggest to replace the proposal of the inclusion of raw data with a percentile treatment of the right tail.		Saif Chabi, Sarah Schmidke	European Banking Federation	Publish

51	Credit Risk	5.3 Risk quantification	114	47	Clarification	It should be clarified if the ECB's expectation is that the LGD estimates at grade level should be roughly the same whether following a 'grade level' or a 'calibration segment level' technique, following the terminology used in the EBA PD and LGD Guidelines. It must be noted that systematic deviations may arise in the presence of point risk ranking models used for risk differentiation. Whereas this issue may be more acute for the PD estimation it would be most welcome if the ECB clarifies if its expectation is the use of risk-drivers in the risk differentiation process that are not risk-sensitive to changing economic circumstances.		Saif Chabi, Sarah Schmidke	European Banking Federation	Publish
52	Credit Risk	5.3 Risk quantification	115 b), c)	47, 48	Amendment	Same amendment and comment as for paragraph 105-b. The model component approach is designed to capture different aspects of the recovery process and allows achieving an LGD estimate which is the result of both losses observed and dynamics of cure/migrations within default statuses and between default and non-default. The request to demonstrate independence among the components is not clear and not coherent with other regulatory prescriptions. The goal of the model components is different and also the drivers tested are, in general, different; the burden of proof for institutions to provide empirical evidence of their independence has to be deleted from the document.		Saif Chabi, Sarah Schmidke	European Banking Federation	Publish
53	Credit Risk	5.3 Risk quantification	118 c)	49	Deletion	Past economic and market conditions only characterise part of an economic cycle and therefore may not provide a representative set of economic conditions for the evaluation of the LRA.	The LRA LGD should represent the long run behaviour of the LGD parameter. Estimation of this parameter will be biased if past economic and market conditions are not representative of the LRA. Adjustments should be permitted (supported by arguments).	Saif Chabi, Sarah Schmidke	European Banking Federation	Publish
54	Credit Risk	5.3 Risk quantification	120 a)	49	Deletion	The prescribed 20-year period is arbitrary and does not provide for a level-playing field between Member States. We note that this is subject to a separate EBA consultation.	Contributes to unwarranted variability in RWAs. This paragraph proposes to implement a rule that is still subject to consultation elsewhere.	Saif Chabi, Sarah Schmidke	European Banking Federation	Publish
55	Credit Risk	5.3 Risk quantification	120 a)	49	Clarification	Is the 20 year period a rolling period, an extending period or a fixed period?	Clarity is required.	Saif Chabi, Sarah Schmidke	European Banking Federation	Publish
56	Credit Risk	5.3 Risk quantification	124	51	Clarification	An increase in LGD to account for data that does not include adverse economic conditions is not MoC. It should be properly described as an adjustment as the desired estimate is a downturn estimate of LGD. MoC will also be required in addition to this adjustment to account for possible error in this adjustment.	This maintains consistency of language with the section on MoC and also allows banks to compute the adjustment using econometric modelling.	Saif Chabi, Sarah Schmidke	European Banking Federation	Publish
57	Credit Risk	5.3 Risk quantification	Chapter 5.3.5 Downturn LGD	49-51	Deletion	As long as the EBA RTS and GL on downturn are not final, and considering the strong debate on several critical points (e.g. adoption of the Reference Value), this section should be, for the time being, removed from the current version of the Guide	EBA Downturn GL still has draft status. This paragraph proposes to implement a rule that is still subject to consultation elsewhere.	Saif Chabi, Sarah Schmidke	European Banking Federation	Publish
58	Credit Risk	5.4 Estimation of ELBE and LGD in-default	126	52	Clarification	The possibility to reflect downturn conditions in the ELBE, if and only if current economic conditions are in a downturn or a downturn is expected over the period of the recovery process, is shared by the institutions. Nevertheless, we do not perceive this approach in the inspection practices; indeed it's a quite common experience that, until now, ECB preference has been towards an ELBE associated with long-run average or, at most, long run average corrected to take into account positive economic outlook and an entire downturn assigned to LGD in-default not to lower RWA on defaulted facilities. Otherwise we deem appropriate to reduce RWA (at least for the Downturn share, the MoC is the other one) in case of current economic conditions already embedded in the Expected Loss Best Estimate. We therefore ask for a clarification on how to interpret this issue and for more details on the approach to be applied. We highlight that an important issue is to avoid as much as possible the excessive volatility in the RWAs and therefore the correction to ELBE should not be based on an excessively PIT logic.		Saif Chabi, Sarah Schmidke	European Banking Federation	Publish
59	Credit Risk	6.2 Realised CCFs	132	55, 56	Amendment	A strict link of the aggregation logics of CCF to the LGD ones is not fully meaningful. Indeed the aggregation logic on LGD might be driven by the level at which the recovery process is performed, whereas on CCF side the aggregation logic should be driven by potential interconnections among elementary facilities affecting each other's behaviour of the drawing of the unused credit line (e.g. as in the cases of current account with connected advances facilities, multipurpose credit lines where a credit limit can be shared among more credit facilities, etc). As a consequence the same level of aggregation as adopted on LGD might not fully work on CCF and vice versa. Thus we would suggest to amend the wording making reference to possible aggregation according to the characteristics of the facilities rather than adopting aggregations valid on LGD side.	Facility aggregation rule for CCF not necessarily similar to LGD one	Saif Chabi, Sarah Schmidke	European Banking Federation	Publish
60	Credit Risk	6.2 Realised CCFs	133	56	Clarification	We understand that regulatory texts set rules regarding PD and LGD calculation whereas there is none as far as the CCF parameter is concerned	This paragraph proposes to implement a rule that has deliberately been omitted from the Single Rulebook by the EBA.	Saif Chabi, Sarah Schmidke	European Banking Federation	Publish
61	Credit Risk	6.2 Realised CCFs	133 b)	56	Amendment	Refer to amendment to paragraph 97-a on LGD.		Saif Chabi, Sarah Schmidke	European Banking Federation	Publish

62	Credit Risk	6.3 CCF structure	134 b)	57	Clarification	Clarification is requested concerning the application of the fixed horizon approach and cohort approach. The Basel Committee on Banking Supervision has indicated the 12 months fixed horizon approach as the preferred one, while, both in inspections and in this Guide, the cohort approach is requested as well. More details should be provided on this topic.		Saif Chabi, Sarah Schmidtko	European Banking Federation	Publish
63	Credit Risk	6.3 CCF structure	134 c)	57	Clarification	We understand that changes (i.e. increase) in the value of the limit for example may have an impact on the CCF. How do institutions have to consider this changes? Do they have to be considered as new credit lines?		Saif Chabi, Sarah Schmidtko	European Banking Federation	Publish
64	Credit Risk	6.4 CCF risk quantification	136 b)	58, 59	Amendment	As for paragraph 113 - c about LGD, we deem not appropriate the proposal not to cap the right tail of the distribution. An appropriate treatment (i.e. interquartile range) has to be performed in order to avoid biases coming from raw CCF.		Saif Chabi, Sarah Schmidtko	European Banking Federation	Publish
65	Credit Risk	6.4 CCF risk quantification	136 c)	59	Amendment	The reasons behind the calculation of the LRA CCF as an arithmetic average of yearly average of observed CCF are not clear. Indeed this approach results self-explaining on the PD side where it is necessary to have a performing obligor at the different reference dates and observing default rates on one-year horizon. But on the CCF side, as for LGD, a calibration to a default weighted long run average of all observed defaults is required by the CRR (Article 182, par. 1, letter a) "(a) institutions shall estimate conversion factors by facility grade or pool on the basis of the average realised conversion factors by facility grade or pool using the default weighted average resulting from all observed defaults within the data sources.". Therefore we suggest keeping a proper alignment with CRR requirement, by amending the wording accordingly, in order to avoid creating potential inconsistency in the interpretation of the requirement. In addition, the rules mentioned in article 136 are additional ones to the CRR and add requirements. However, we consider that they are insufficiently precise and they are open to interpretation.	Calculation of realized LRA CCF seems not fully in line with CRR Article 182, par 1, letter a)	Saif Chabi, Sarah Schmidtko	European Banking Federation	Publish
66	Credit Risk	6.4 CCF risk quantification	136 d)	59	Deletion	We deem that this paragraph is a replication of the criteria valid for LRA default rate quantification on PD side. However CCF, as for LGD, should be calibrated at downturn level (if higher than the long run) thus the availability of a long enough LRA CCF covering both good and bad years is more relevant for a sound downturn estimation leveraging on the availability of downturn period within the time series of internal data (i.e. adopting the approach based on observed impact as for the draft of EBA GL on downturn) rather than for a calibration at LRA representative of the likely range of variability of default which is relevant for PD. Therefore this paragraph appears redundant and might create confusion in the operationalisation of the CCF risk quantification.	Calibration concept of CCF linkage to PD ones	Saif Chabi, Sarah Schmidtko	European Banking Federation	Publish
67	Credit Risk	6 Conversion factors	General	53-60	Amendment	The section on CCFs is a cut and paste of the section on LGD. However, following the prescribed guidance, one may arrive at a downturn period different to the one used for LGD for a given set of facilities.	It is not appropriate to choose different downturn periods for LGD and CCF for the same set of facilities as there is a correlation between LGD and CCF. Credit management measures could be taken to reduce the CCF of facilities even as their LGD increases during a period of economic adversity. E.g. revolving credit. The text should be amended to prescribe the same downturn period for both LGD and CCF.	Saif Chabi, Sarah Schmidtko	European Banking Federation	Publish
68	Credit Risk	7.1 Relevant regulatory references	142	61	Clarification	Margin of Conservatism has to be integrated into models in case of statistical weaknesses. Do institutions have to consider the uncertainty surrounding volatility in a Margin of Conservatism whereas the involved models predict it in a satisfactory manner? Wording is not clear regarding the proposed calculation framework for statistical weaknesses as the MoC seems to depend only on observed values. It seems that a model that perfectly follows observed volatility would be penalised only because of volatility in the observations. It could be expected that rather the difference between observation and prediction should be targeted by the MoC.		Saif Chabi, Sarah Schmidtko	European Banking Federation	Publish
69	Credit Risk	7.1 Relevant regulatory references	142	61	Clarification	It should be clarified that the intent of this paragraph is not to prescribe a model philosophy (PIT, TIC). It should be clarified that the intent of this paragraph is to require a quantification of the error in determining the LRA based upon the length of the timeseries from which it is determined. To this end, it should be recognised that different banks will adopt different approaches unless a common approach can be agreed. Examples would be useful.	The Single Rulebook does not prescribe a specific PD modelling philosophy.	Saif Chabi, Sarah Schmidtko	European Banking Federation	Publish
70	Credit Risk	7.1 Relevant regulatory references	142	61, 62	Clarification	It is unclear if the "other estimates" refers to parts of the model that due to the estimation complexity might be considered self-standing models or to any parameter which represent an input to the model (i.e. Downturn component, indirect costs). In particular, it is unclear what should measure the materiality of the uncertainty (quality of parameter estimation, relevance of the parameter in the model, marginal changes that a MoC might produce). Due to the complexity of the correlated effects and the undesired possibility to disproportionately increase the MoC C, it is requested to specify that a "one for all" MoC C should be computed and the latter should encompass all the model's estimation errors.	Insufficiently clear explanation on MoC category C for PD parameter	Saif Chabi, Sarah Schmidtko	European Banking Federation	Publish
71	Credit Risk	7.1 Relevant regulatory references	142 a)	61	Amendment	The requirement to reflect the dispersion of the statistical estimator at grade level might produce the following effects, in particular for LDP: - inversion of PD ordering for adjacent classes - incentive to use totally PIT rating systems in order to minimize the variability of default rates for each class. On the other hand, this would increase the RWA volatility - incentive to use less granular master scale, penalizing the models risk differentiation. It should be clarified that the MoC "to account for statistical uncertainty/sampling error affecting the LRA estimate" should be based on the number of observations available rather than the variability of one year DRs. Indeed considering the volatility of the DR as key driver in the computation of the MoC would lead to the following drawbacks: - model with a longer historical time series (and hence an expected higher variability in the DR) will be penalised with an higher MoC although the statistical uncertainty/sampling error would be smaller due to the huge number of counterparties in the sample for the CT computation; - inconsistency with framework for the CT computation designed in the EBA/GL/2017/16, that requires a CT which is representative of the likely range of variability. Therefore we suggest the following amendment: "to account for statistical uncertainty/sampling error potentially affecting the LRA DR estimate at least at the level of calibration segment. The MoC should be based on the level of the LRA DR and the number of observations available for its estimation".	MoC C should be independent from the yearly default rate volatility and should depend on the number of observations	Saif Chabi, Sarah Schmidtko	European Banking Federation	Publish

72	Credit Risk	8.1 Relevant regulatory references	143	62	Clarification	It would be most welcome to clarify the expectations as regards the annual review of estimates. Is it the intended outcome of this process to necessarily update risk estimates (i.e. modify risk parameters) so as to ensure that new information is explicitly incorporated into the estimates?		Saif Chabi, Sarah Schmidke	European Banking Federation	Publish
73	Credit Risk	8.1 Relevant regulatory references	146	63	Clarification	The requirements of full model review seem to be independent from the deterioration evidence in terms of model performance, that are already covered within the regular annual review of estimates, since additional analyses are required in order to evaluate if the inclusion of the most recent data would lead to different material model outcomes. However insufficient details are provided regarding the additional analyses to be performed in order to evaluate if a model has to be re-estimated, not fully clarifying the requirements of articles of EBA Guidelines related to full review (i.e. article 220 that asks for review of existing and potential risk drivers and modelling overall framework). The lack of clear guidance on this can lead to difficulty in the interpretation and consequent operationalisation and bears the potential to increase of the operative effort during the model maintenance phase. The risk of an excessive operational effort is also linked to the requirement to perform the model review on a three-yearly basis (or more often depending on the materiality), considering that paragraph 218 of EBA/GL/2017/16 already requires an (at least) annual for cycle for the review of estimates. Paragraph 146 mentions "material models". This wording is not mentioned in regulatory texts. Could you please explain what materiality means in this context and for what purpose material models have to be defined?	Insufficiently clear explanation regarding the additional analyses to be performed in order to evaluate if a model has to be re-estimated	Saif Chabi, Sarah Schmidke	European Banking Federation	Publish
74	Credit Risk	8.1 Relevant regulatory references	147, 148	64	Amendment	Typographic error.		Saif Chabi, Sarah Schmidke	European Banking Federation	Publish
75	Credit Risk	9.1 Relevant regulatory references	151	65	Clarification	Are exemptions from the one-year maturity floor permitted?		Saif Chabi, Sarah Schmidke	European Banking Federation	Publish
76	Credit Risk	4 Probability of default	General	20-34	Clarification	It would be helpful if the ECB would clarify that no specific model philosophy is prescribed for PD.	The Single Rulebook does not prescribe a specific PD modelling philosophy.	Saif Chabi, Sarah Schmidke	European Banking Federation	Publish
77	Credit Risk	4 Probability of default	General	20-34	Clarification	It would be helpful if the ECB would clarify in more details its expectations regarding the use of Masterscales.		Saif Chabi, Sarah Schmidke	European Banking Federation	Publish
78	Credit Risk	4 Probability of default	General	20-34	Clarification	It would be useful for the industry if ECB issued a policy regarding the timeline for a model change, included the timing it will takes to send the decision (or draft letter) after an application. In this way, with a deadline, banks could plan properly IT interventions, business impacts, etc ... and industry could manage updates of time series or remediation plans in timely manner.		Saif Chabi, Sarah Schmidke	European Banking Federation	Publish
79	Market Risk	2.2 Delimitation of the regulatory trading book	6	68	Clarification	The list of instruments that are presumed to be held for trading purposes and that should be classified within the prudential trading book has been slightly amended regarding the equity investment in funds. There is no mention of the equity investment in funds in the Trading book list (cf. paragraph 7 of the Market risk chapter). Conversely, the Banking Book list includes the "equity investments in a fund for which the institution cannot obtain liquid prices". The reference to a daily frequency has been removed. Does it mean that the ECB considers that funds with weekly or monthly NAV can be classified within the Trading Book?	The ECB position on the treatment of equity investment in funds could be subject to divergent interpretation and need to be clarified.	Saif Chabi, Sarah Schmidke	European Banking Federation	Publish
80	Market Risk	2.2 Delimitation of the regulatory trading book	7	69	Clarification	Footnote 64 has been added stating that "Where an institution is aware of the underlying investments of the fund on a daily basis, the underlying investments might be assigned to the trading or banking book depending on their characteristics. We understand that this means the look-through negates the need to demonstrate liquid prices (i.e. that a fund with no liquid prices can be classified within the Trading book provided that the look-through is achievable).	The ECB position could be subject to divergent interpretation and need to be clarified.	Saif Chabi, Sarah Schmidke	European Banking Federation	Publish
81	Market Risk	2.3 Treatment of banking book positions	15	71, 72	Clarification	According to paragraph 15 an Institution should have policies in place describing "the intermediate steps followed for calculating the FX positions, beginning with each individual subsidiary and proceeding to the group level". When discussing exclusions reference is made to "consolidated and sub-consolidated levels to balance sheet items in foreign currencies that stem from consolidated subsidiaries and is without prejudice to the extent and manner of prudential consolidation prescribed in Article 18 of the CRR". Consolidation practices of FX exposure are however not homogeneous in the industry ranging at a minimum from a building block approach in which local-view exposures and related OFR are added up to form a "consolidated" amount to the full consolidation of Assets and Liabilities in local currencies of the subsidiary in the (e.g.) EUR-based balance sheet of the Holding Company. The latter then poses several choices on • whether to consider the resulting A/L imbalance (net equity of the (e.g.) CZK Legal Entity, corresponding to the equity participation) as source of FX risk, • on how to reconcile such consolidated view of FX risk (in which CZK assets attract OFR) with the local FX risk management (in which CZK assets are not risky) • and how to bring together in the overall OFR measurement Legal Entities with FX covered under IMA and LE entities without approval. A harmonization of the standard on policies should only follow a clear set of indications on how such consolidation of FX Positions should be taking place, covering all of its implications: from PL-RWA consistency to IMA-SA inter-relations.	The paragraph expects to harmonise the standards of the internal policies describing the FX Position consolidation process, in the absence of a sufficiently detailed regulation on how the consolidation be carried out. Harmonization should begin from the consolidation principles in the first place.	Saif Chabi, Sarah Schmidke	European Banking Federation	Publish
82	Market Risk	2.5 Exclusion of positions in the regulatory trading book from the scope of application of the IMA	23	74	Deletion	The requirement "Additionally, institutions should be able to demonstrate that the level of own funds requirements under the standardised approach is commensurate with the risks of those positions." appears undue. It is difficult to see what such demonstration should consist of and what it should imply. Correct application of the regulatory requirement should be a sufficient requirement. Knowing that institutions have no choice but to calculate own fund requirements using the standardised approach in case where the internal model cannot be use, we propose to remove the last sentence of the paragraph.	Correct and complete application of the regulatory requirement should be the only requirement.	Saif Chabi, Sarah Schmidke	European Banking Federation	Publish
83	Market Risk	2.5 Exclusion of positions in the regulatory trading book from the scope of application of the IMA	24	74	Amendment	Paragraph 24 states that "unusual underlyings (such as temperature, weather or mortality)" could be included in the scope of IMA. Nevertheless, we consider these underlyings are non-hedgeable on capital markets and urge a removal of this requirement from the Guide.	We consider these underlyings are non-hedgeable on capital markets and therefore ask for the removal of unusual underwritings from the framework.	Saif Chabi, Sarah Schmidke	European Banking Federation	Publish

84	Market Risk	2.6 Treatment of specific positions	32	78	Amendment	Inclusion of defaulted debt in VaR and SVaR appears unnecessary in that market factor volatility should no longer be relevant for the security.	The treatment of defaulted assets under VaR and SVaR appears unnecessary.	Saif Chabi, Sarah Schmidke	European Banking Federation	Publish
85	Market Risk	3.4 Calculation of actual P&L	66	87	Clarification	Paragraph 66 states that « all valuation adjustments or reserves made in the economic P&L are also relevant for the calculation of the actual P&L ». It is not clear which reserves are covered by this requirement. Indeed, reserves aims at measuring uncertainties, they are not comparables to adjustments. We ask for examples and clarifications.	It is not clear which reserves are covered by this requirement. We ask for examples and clarifications	Saif Chabi, Sarah Schmidke	European Banking Federation	Publish
86	Market Risk	3.4 Calculation of actual P&L	67	87	Clarification	Paragraph 67 suggests that any adjustment "in scope" of market risk should be included in the Actual PL. If "in scope" of market risk refers to adjustments that help capturing the actual dynamics of market variables, then several Fair Value Adjustments referred to XVAs (FuVA, MVA, KVA...) should not be seen as part of Actual PL. FuVA is indeed designed to capture the Funding Costs throughout the life of a derivative, MVA the costs/benefits of pledging/collecting Initial Margin, KVA their RWA-related costs.	It would be important to clarify which adjustments can be considered out of the scope of market risk, especially with respect to XVAs.	Saif Chabi, Sarah Schmidke	European Banking Federation	Publish
87	Market Risk	3.6 Counting of overshootings	80	90	Clarification	Paragraph 80 authorises to "withdraw overshooting notifications". In some occasions, VaR back-testing breaches may result from RNIM which are capitalised through add-ons. If the amount of related capital add-on was large enough to absorb the VaR excess, banks should be allowed to discard the overshooting. We therefore propose that §80 allows that not only "malfunctions in the calculation of a P&L or the VaR" may be considered as an "acceptable reason" of overshooting but as well capital add-ons.	We ask for examples and clarifications.	Saif Chabi, Sarah Schmidke	European Banking Federation	Publish
88	Market Risk	3.6 Counting of overshootings	81	90	Amendment	In agreement with our proposed amendment of §80, we are suggesting that the list of acceptable reasons be complemented with "i) capital add-on related to the cause of the overshooting when it covers the excess to the VaR".	Addition of a reasonable cause for withdrawal of overshooting	Saif Chabi, Sarah Schmidke	European Banking Federation	Publish
89	Market Risk	4.4 Validation on hypothetical portfolios	94	96	Clarification	The ECB indicates that the requirement of Article 369(1)(c) to use hypothetical portfolios in the internal model validation refers in particular to VaR, SVaR and IRC models. While the validation based on hypothetical portfolios is detailed for VaR models in paragraph 4.5, there is no detail for SVaR and IRC models apart from the generic analysis described in item 95(b). The industry would be very keen to receive guidance from ECB on how to perform internal validation of SVaR and IRC models using hypothetical. If we take the example of the SVaR model: what differentiate the SVaR model from the VaR model is the stressed historical period. We see limited benefits from using hypothetical portfolios to validate the stressed period calibration since the stressed window is supposed to be relevant to the institution's whole portfolio (Article 365 (2) of CRR).	Use of hypothetical portfolios for SVaR and IRC internal validation is unclear	Saif Chabi, Sarah Schmidke	European Banking Federation	Publish
90	Market Risk	5.2 General requirements	102	98	Amendment	The paragraph requires the "risk factors included in the VaR and SVaR models on the basis of observable data. The observability criteria are not defined in the CRR and seem to establish a connection with the forthcoming FRTB modelability standards.	The concept of "observable data" is not set in CRR. FRTB contents should not be front-loaded.	Saif Chabi, Sarah Schmidke	European Banking Federation	Publish
91	Market Risk	5.2 General requirements	103	98	Deletion	The ECB requires that the precision and stability (note that it should be made reference to "precision" rather than "accuracy" in this instance) is sufficient when using Monte Carlo simulations. We do not understand this specific requirement on Monte Carlo models as, if 250 or more simulations are used, the precision and stability of Monte Carlo models will be as good as the one of historical simulations based models.	Monte Carlo models are no less precise or stable than Historical models and hence do not deserve a specific treatment.	Saif Chabi, Sarah Schmidke	European Banking Federation	Publish
92	Market Risk	5.5 Proxies, beta approximation and regressions	128	106	Deletion	The paragraph requires a test where two types of PL non included in the CRR are to be computed: b) the hypothetical P&L calculated on the same unchanged positions but replacing, for the positions for which proxies are used in the VaR, the market data with the market data of their proxies c) the hypothetical P&L calculated on the same unchanged positions but replacing, for the positions for which proxies are used in the sVaR, the market data with the market data of their proxies. This is an extremely challenging requirement that few banks will be able to meet. To some extent, it looks like an attempt to introduce, through the back-door, a FRTB P&L attribution test within the current CRR framework. At a time when banks will have to devote lots of energy to implement the FRTB, we would advise that this requirement be dropped.	The proposed assessment is front running the FRTB and would be very difficult to meet as of now.	Saif Chabi, Sarah Schmidke	European Banking Federation	Publish
93	Market Risk	5.7 Pricing functions and methods in the model	134	109	Clarification	In case the institution have a validation unit, within the Risk Management Department, that is dedicated to the validation of pricing functions used for economic P&L and for their implementation in the VaR and sVaR engine, it is reasonable to let this unit perform a portion of the activities cited in article 134 even if it is not part of the Internal Validation function (similarly to what reported in art 68 in Counterparty Risk section)?	In this context, in order to assure an adequate level of control, it is reasonable to focus the activities of the Internal Validation function on the behavior of pricing functions within risk scenarios and on independent reviews of the activities performed by the Risk Management's unit that validated the pricing functions?	Saif Chabi, Sarah Schmidke	European Banking Federation	Publish
94	Market Risk	6.2 General requirements	138	110, 111	Amendment	The paragraph requires an institution that uses "the assumption of a one-year constant position" to "be able to demonstrate that the chosen assumption appropriately captures the risk of its portfolio." Instead, institutions choosing the one-year constant position assumption should not be required to prove adequacy of such choice to reflect the risk of their portfolio. Such assumption indeed can be considered as conservative, assigning to all positions in the portfolio the poorest possible liquidity and removing the deconcentration effects potentially arising from replacement of defaulted issuers within the capital horizon. This also seems to be reflected in the formulation of CRR Article 374(4), where one-year constant position is presented as a fall-back case, alternative to the liquidity horizon assessment required for the constant level of risk assumption. We suggest amending the paragraph to clarify that one-year constant position assumption does not require, by itself, to be justified in terms of adequacy.	Requirement to prove the adequacy seems not required by CRR that elects this approach as the fallback one in case Liquidity Horizon assessment was not possible.	Saif Chabi, Sarah Schmidke	European Banking Federation	Publish
95	Market Risk	6.2 General requirements	139	111	Deletion	The paragraph requires a quantitative assessment of how maturity mismatches – that may lead to imbalanced positions within the modelling horizon – impact the IRC and the default risk in the IRC amounts. Such effects should be naturally captured in migration risk via the difference in CS01 of instruments of different maturities: there should be no need for additional quantifications. As for the default risk, beyond the computation itself, maturity mismatch could be due to rolling strategies, and hence embedded into the business model. As a consequence, the results of test should be assessed on a case-by-case basis, also factoring in considerations on business models beyond pure quantitative impacts, and not be a trigger for capital increase / model review.	The relevance of maturity mismatches should be considered in the light of the fact that the portfolio is static by definition and there is no requirement in the CRR to introduce the concept of default time within the capital horizon.	Saif Chabi, Sarah Schmidke	European Banking Federation	Publish
96	Market Risk	6.4 Distribution and correlation assumptions	151	114	Amendment	The granularity of the cases for which correlation effects are explored is too high. Half of the cases would suffice.	Too many correlation scenarios do not provide meaningful additional information.	Saif Chabi, Sarah Schmidke	European Banking Federation	Publish

97	Market Risk	6.5 Ratings, probabilities of default and recovery rate assumptions	158	117	Amendment	The ECB interpretation of the term "greater than zero" meaning greater than, or equal to, one basis point is very punitive in particular for sovereign issuers: conservative calibrations of sovereigns with AAA ratings have PDs which are much below this new floor. Null default probability results from the calibration on observations in case of the absence of defaulting occurrence in the data history. As an alternative to meet the requirement of Article 65 (3) of the RTS on assessment methodology for IMA and significant share, the industry proposes to introduce a floor on default probability at the nearest non-zero probability.	Huge impact of the PD floor at 1bp on IRC due to the sovereign and covered bonds positions which could impact liquidity negatively.	Saif Chabi, Sarah Schmidtko	European Banking Federation	Publish
98	Market Risk	6.5 Ratings, probabilities of default and recovery rate assumptions	161	118	Amendment	We suggest replacing the unweighted approach with a weighted one.	The paragraph requires an equally weighted average PD of those issuers not subject to an unweighted approach. An unweighted average could not be representative of the portfolio, and in addition, given the typical exponential scale, high PD will dominate. We suggest a weighting mechanism (JID or Incremental / Standalone IRC based) that is more risk sensitive.	Saif Chabi, Sarah Schmidtko	European Banking Federation	Publish
99	Market Risk	7.2 The framework for risks not in the model engines	170	122	Amendment	The paragraph suggests that Article 367 rules generically risk engines and that RNIME can be included in such category becoming an integrating part of the IMA. On the other hand, CRR explicitly mentions VaR, SVAR, IRC and CRM as IMA engines not mentioning anything about Risks Not in the Model Engine other than by expressing in 367 (1)(a) that a model shall "capture accurately all material price risks". The stance of the Guide seems hence over-reaching in requiring RNIME to have the same standing of a component of an Internal Model (initial approval, model change RTS). We therefore suggest reverting to the 2017 concept of RNIM avoiding any extension of the current IMA perimeter. RNIM should be simply complementing the existing IMA metrics with ad-hoc add-ons to address material deficiencies in the quantification of the price risks.	There is no clear indication in the CCR that an extension of IMA to a RNIME is required. RNIM can be handled in the scope of existing IMA (on VaR, sVaR, IRC, CRM) through dedicated add-on where all price risks might not be fully represented in the model.	Saif Chabi, Sarah Schmidtko	European Banking Federation	Publish
100	Market Risk	7.2 The framework for risks not in the model engines	171	123, 124	Clarification	The paragraph 171 introduces the concept of "satellite" components, which encompass risks not modelled in the "main component". The capitalization of the risks that are not modelled in the main component is as well the aim of the add-ons. It can be understood that satellites have got a higher quality regarding both implementation, model accuracy and calculation process than add-ons. Can the differences between expectations on add-ons and satellites be detailed?	We ask for a definition of "satellite".	Saif Chabi, Sarah Schmidtko	European Banking Federation	Publish
101	Market Risk	7.2 The framework for risks not in the model engines	173	124	Amendment	While the risk unit certainly has the duty of monitoring the RNIM component, even according to prescriptions detailed in paragraph 172, the handling of the framework should not follow under the same standards of the IMA component, especially when referring to initial approval and subsequent model changes standards.	RNIM should be managed by the risk control unit however outside the rigid standards of the IMA.	Saif Chabi, Sarah Schmidtko	European Banking Federation	Publish
102	Market Risk	7.3 Identification of RNIME	174	125	Deletion	The list of risks listed as giving rise to RNIM is very broad and includes items (e.g. IRC factor model assumptions) that are by definition out of the scope of day to day risk monitoring activities designed to ensure that any material price risks not captured are identified. As a matter of fact most of the risks mentioned under 174 (b) are better captured under the Model Risk Framework, which can be subject to Pillar 2 capital with dedicated static cushions. In addition, proxies are specifically mentioned in a) as a potential source of RNIM, when sections 5 and 6 of the Market Risk chapter specifically deals with their handling within model engines, and banks with Specific Risk approval are already required to model basis risk due to proxying.	While a) - omitting reference to proxies - and c) captures phenomena that are correctly monitored under the RNIM framework, b) overlaps with the Model Risk Framework, that is already regulated, and potentially capitalized in Pillar2 via cushions.	Saif Chabi, Sarah Schmidtko	European Banking Federation	Publish
103	Market Risk	7.3 Identification of RNIME	175	126	Amendment	The last paragraph prescribes that "unless the institution can provide justification that the effect of an RNIME is negligible in the current portfolio and will remain negligible taking into account the trading strategy, it should take that RNIME into account in its RNIME framework." Also in this case the scope of the RNIME seems to be going beyond the identification of material price risk required by CRR and to overlap with consolidated process in a Bank such as the New Product Process (NPP), the Risk Appetite Framework (RAF) and the limits setting.	The paragraph expresses requirements that are in overlap with well-established processes in the Bank e.g. RAF, NPP, risk limits setting. The quantification of the adequacy of a risk model should be based on objective measures like Back Testing.	Saif Chabi, Sarah Schmidtko	European Banking Federation	Publish
104	Market Risk	7.4 Quantification of RNIME	177	127	Amendment	The paragraph prescribes the same level of conservatism in the quantification of the RNIM of the metric they refer to. In the light of the fact that no diversification is allowed among them and that the only practical assessment could be standalone rather than incremental (if it was readily available the risk would be already included in the model), the overall result of the prescribed calculation is bound to be over-conservative.	The paragraph sets impractical and too conservative standards in the quantification of the RNIM.	Saif Chabi, Sarah Schmidtko	European Banking Federation	Publish
105	Market Risk	7.4 Quantification of RNIME	178	127, 128	Amendment	Unless approximations to the calculations are allowed, the Incremental assessment can be only obtained by including the RNIM in the Model. The requirement appears hence impractical since the standard assessment will be conducted on a standalone basis, which is bound to be too conservative. In addition, any capital add-ons that might be quantified for a RNIM should not be compounded with any aggravation of the regulatory multiplier caused by backtesting exceptions driven by the RNIM.	The paragraph sets impractical and too conservative standards in the quantification of the RNIM. CRR clearly prescribes a multiplier increase mechanism to compensate for model inaccuracies and this should not be compounded with add-on.	Saif Chabi, Sarah Schmidtko	European Banking Federation	Publish
106	Market Risk	7.4 Quantification of RNIME	178	127, 128	Clarification	EBF considers the introduced incremental risk number method as a more accurate method than the stand-alone risk number method in the February 2017 TRIM Guide. EBF seeks some implementation related clarifications to the incremental risk number method. In some cases, data availability may be limited and EBF proposes that stress-based RNIME calibrations as part of the incremental risk number method are allowed. EBF also seeks a clarification that appropriate approximations and assumptions are allowed to estimate the incremental risk number in cases where full time series data is not available. The institution needs to be able to justify the approximations and assumptions applied.	Based on the discussion in the public hearing on the 17th October 2018, our understanding is that appropriate assumptions and approximations when quantifying the incremental risk number for an RNIMEi, is allowed subject to adequate documented justification. We find that a clarification would be beneficial.	Saif Chabi, Sarah Schmidtko	European Banking Federation	Publish
107	Market Risk	7.4 Quantification of RNIME	178	127, 128	Amendment	We welcome the quantification of RNIM as the incremental increase of the relevant risk number. It recognises the diversification between the RNIM and other risk factors incorporated in the model. Unfortunately, they may be cases where diversification effect will be hard to assess and the RNIM impact may only be calculated conservatively on a standalone basis. This being said, whenever possible, institutions should be given the flexibility to recognise diversification between RNIM as well. A simple arithmetic sum of RNIM impacts (which sometimes will already be calibrated conservatively as standalone stress tests) will result in a grossly overstated CIQ (see §183(c) on page 131). Actually, as a rule of thumb, RNIM will often be unrelated and a quadratic formula (square root of the sum of squared RNIM impacts) may be a more suitable way of aggregation.	Recognise diversification between RNIM.	Saif Chabi, Sarah Schmidtko	European Banking Federation	Publish
108	Market Risk	7.4 Quantification of RNIME	179	128	Clarification	Art. 179: if the factor is not in the model the incremental risk number might not be directly observable.	It could be useful to understand how institutions should calculate incremental risk numbers in case of illiquid/not observable risk factors. Due to the nature of RNIME, it might not always be feasible to compute a VaR (sVaR) measure for these risks within the current engine, nor their impact on the Bank VaR (sVaR). For instance, if the factor is not directly observable or it is an illiquid position the incremental risk number might not be easily measured. Furthermore, in some cases, data availability can be limited. Incremental assessment might be only obtained by including the RNIM in the Model and this seems contrary to the definition of RNIM itself.	Saif Chabi, Sarah Schmidtko	European Banking Federation	Publish

109	Market Risk	7.5 Management of RNIME and implementation in an institution's risk engines	183	129-131	Amendment	<p>Lack of diversification benefit and standalone calculation of RNIM impacts will lead to over-estimation of the relevance of such risks which, once embedded in the model, might as well prove immaterial on the risk metric.</p> <p>In addition, if such a quantification system gets linked to capital add-ons (as opposed to simply triggering model enhancements) for those cases where BT exceptions are also induced by the model deficiency there will be a double counting on capital.</p> <p>The previous version of the guide allowed two options in case of a RNIME cumulative impact higher than the 10% threshold (item 176(b)): the setup of an action plan by the Bank to include one or more RNIME or the demonstration that the effect of the RNIME is not material while taking into account the diversification benefit". The latter of the two options is no more available while we believe it was a reasonable approach.</p> <p>Due to the nature of risks not in the model engine, it is not always (not to say never) feasible to compute a VaR, SVaR or IRC for those risks with the current engine, nor their impact on the bank's VaR, SVaR or IRC. In addition, the risks not in the model engine do not always have daily (or regular) observable data that can be used to adequately compute a risk measure impact at the same confidence level than the reference risk number. As a consequence, one may rely on a stress test approach based on expert judgment (as mentioned in item 180) that will be sounder and more conservative than a loss at 99% confidence level and a holding period of ten days for VaR/SVaR or a 99.9% confidence level over a time horizon of 1Y for IRC. Not allowing for any diversification effect between the different risks not in the model engine leads to consider a scenario that is much more adverse than a 99% quantile on a 10 days holding period (resp. 99.9% quantile over a time horizon of 1Y for IRC): the individual stress tests are built to be more adverse than that, then assuming they all happen at the same time corresponds to an even more remote scenario.</p> <p>Finally, the absence of diversification creates a great divergence between the risk measure taken as a reference (where risk factors included in the model benefits from diversification effects) and the cumulative effect of all RNIME.</p>	The quantification approach appears over-conservative and bound to generate capital add-ons in excess of what the actual impact on the risk measures will be upon model extensions.	Saif Chabi, Sarah Schmidke	European Banking Federation	Publish
110	Market Risk	7.5 Management of RNIME and implementation in an institution's risk engines	183	129-131	Clarification	EBF seeks a clarification that the cumulative RNIME impact quantification only includes non-capitalised RNIME in the numerator in the formula for CIQRisk number.		Saif Chabi, Sarah Schmidke	European Banking Federation	Publish
111	Market Risk	7.5 Management of RNIME and implementation in an institution's risk engines	183	129-131	Clarification	Art. 183(b); if the factor is not in the model thresholds might not be identifiable. Contribution to actual P&L would be more relevant. It is not clear if the threshold (5%) has to be applied to the sum of risk figures or to a single one. Further, consider that risk figures contributions might offset.	It may be useful to have further clarifications on how to effectively manage thresholds, especially when not directly observable risk factors are to be measured. □	Saif Chabi, Sarah Schmidke	European Banking Federation	Publish
112	Market Risk	7.5 Management of RNIME and implementation in an institution's risk engines	186	132	Deletion	<p>Considering RNIME as part of IMA seems out-reaching the CRR prescriptions around the completeness of the price risk capture. In addition, having it subject to the EBA RTS on model change will congest even further a model change mechanism that is already proving a bottleneck to normal model maintenance operations.</p> <p>A regular reporting (e.g. quarterly) of the status of the RNIME framework (new RNIMES, ceased RNIMES, modification of the methodology for the calculation of existing RNIMES), performed by risk control unit and validated by the Internal Validation function, is suggested as an alternative.</p> <p>Model change process should be triggered only to initially validate the overall framework (policy, roles and responsibilities, triggers, internal thresholds, reporting) or in case of major organizational changes to the validated framework.</p> <p>Finally, it is unclear how this part of the model will be dealt with in the context of FRTB coming into force, i.e. if it will be replaced or if it will stay. Since the former appears more likely, this would mean a wave of model approvals for the RNIME set up that might not even reach the approval phase if FRTB timeline to 01.01.2022 is confirmed.</p>	<p>Inclusion of RNIME in IMA framework appears unnecessary.</p> <p>A simplified approach, that would not encompass the model change procedure, should be in place.</p> <p>Interaction mechanism with FRTB come into force is also unclear and exposes to the risk of a wave of model approvals that will be short-lived or not-lived at all.</p>	Saif Chabi, Sarah Schmidke	European Banking Federation	Publish
113	Market Risk	7.5 Management of RNIME and implementation in an institution's risk engines	183-188	129-132	Amendment	From Art 183(c) to 188: model change policies should not apply to such a framework given the timeliness of a model change approval. A simplified approach should be in place.	A simplified approach, that would not encompass the model change procedure, should be in place.	Saif Chabi, Sarah Schmidke	European Banking Federation	Publish
114	Market Risk	7.5 Management of RNIME and implementation in an institution's risk engines	183-188	129-132	Amendment	Art. 183 (c) to 188: The set-up of an efficient procedure to validate and quantify the impacts of RNIME is crucial to keep the overall process sustainable. Model change processes should not be triggered every time a RNIME is created or modified: instead, a regular reporting (e.g. quarterly) of the status of the RNIME framework (new RNIMES, ceased RNIMES, modification of the methodology for the calculation of existing RNIMES), performed by risk control unit and validated by the Internal Validation function, is suggested as an alternative. Model change process should be triggered only to initially validate the overall framework (policy, roles and responsibilities, triggers, internal thresholds, reporting) or in case of major organizational changes to the validated framework.	Model change process should be triggered only to initially validate the overall framework (policy, roles and responsibilities, triggers, internal thresholds, reporting) or in case of major organizational changes to the validated framework.	Saif Chabi, Sarah Schmidke	European Banking Federation	Publish
115	Market Risk	7.5 Management of RNIME and implementation in an institution's risk engines	189	132	Amendment	Paragraph 189 states that «RNIME add-ons are not included in the VaR number [and] they should not be taken into account when performing regulatory back-testing». When RNIME add-ons are calculated with a minimal frequency and aggregated with the VaR based on robust correlation assumptions such that the completed VaR metric is risk sensitive, such add-ons should be taken into account in the regulatory back-testing as "satellites" are.	We ask for an amendment to the text.	Saif Chabi, Sarah Schmidke	European Banking Federation	Publish
116	Market Risk	7.5 Management of RNIME and implementation in an institution's risk engines	189	132	Amendment	<p>We fully agree that since the RNIME add-ons are not included in the VaR number, they should not be taken into account when performing regulatory back-testing (cf. paragraph 189). Back-testing outliers explained by RNIME should be monitored. Nevertheless if the back-testing outliers shows to relate to RNIME capitalized through add-ons, possible consequences should depend on the amount of the add-ons:</p> <ul style="list-style-type: none"> - If the value of the impact of RNIME(i) on the recorded loss is below the RNIME(i) capital add-on, then breach should be discarded (i.e. considered as technical) and should not impact the addend accordingly as those RNIME(i) variation are sufficiently capitalized. - Else, the breach should impact the addend as the capital for the RNIME(i) is not sufficient. <p>By definition the capital add-ons compensate the issue of non-modelling a given risk factor then institutions should not be penalized if a loss attributed to a RNIME is fully covered by a capital add-on.</p>	Institutions should not be penalized (additional capital requirement) if a loss attributed to a risk factor not in the model engine is fully covered by a capital add-on.	Saif Chabi, Sarah Schmidke	European Banking Federation	Publish
117	Counterparty Credit Risk	2.1 Relevant regulatory references	6 f)	135	Clarification	Can you please further clarify and detail the core aspects on which performances should be calculated? A performance can be described "unacceptable" following internal rules and thresholds or will have to follow specific ones defined by the ECB?		Saif Chabi, Sarah Schmidke	European Banking Federation	Publish
118	Counterparty Credit Risk	2.3 Principles for ECB banking supervision	15	137	Amendment	Paragraph 15 defines three conditions to ensure that identified pricing model deficiencies are addressed. The threshold for these conditions have been subsequently reduced between the previous version of the Guide and this draft version. These conditions are very sensitive especially for long term transactions. We urge the ECB to adopt a commensurate approach and to increase the thresholds for conditions (a – difference vs. the absolute value of the respective benchmarking value) and (b – difference vs. notional amount) to respectively 1 MEUR and 5%.	Thresholds should be higher in order to focus investigations on important price difference: low thresholds would imply a major operational burden without significant enhancement on exposure calculation. Indeed, as per Article 18, price differences for transactions covered by the IMI will be captured in the exposure calculation, and additionally, exposure estimations including price differences exhibit limited impacts.	Saif Chabi, Sarah Schmidke	European Banking Federation	Publish
119	Counterparty Credit Risk	2.3 Principles for ECB banking supervision	15	137	Clarification	Can you confirm that the identification process described at paragraph 15 has to be interpreted as follows: 1) at the date of the regulatory reporting, transactions that meet all the conditions expressed in paragraph 15 are selected; 2) the pricing discrepancies (IMM vs benchmarking value) of such transactions are further analyzed in each business day of the quarter; 3) the effective carve-out of the transaction is put in place only if thresholds are exceeded for more than 10 days.		Saif Chabi, Sarah Schmidke	European Banking Federation	Publish
120	Counterparty Credit Risk	2.3 Principles for ECB banking supervision	16	138	Deletion	Point 1 of paragraph 16 (i.e. « The ECB considers [...] with Article 294(1)(d) of CRR ») on the appropriate measures to address identified model weaknesses should be removed.	Remove the first point of paragraph 16	Saif Chabi, Sarah Schmidke	European Banking Federation	Publish

121	Counterparty Credit Risk	2.3 Principles for ECB banking supervision	16	138	Amendment	Point 3 of paragraph 16 (i.e. « In particular for margined netting sets [...] expected exposure (EE) time profile ») is not consistent with the requirements of paragraph 15.	Align the objectives of paragraphs 15 and 16	Saif Chabi, Sarah Schmidke	European Banking Federation	Publish
122	Counterparty Credit Risk	2.3 Principles for ECB banking supervision	18	138	Amendment	Paragraph 18 authorizes the adjustment of the netting set value only if this difference increases the netting set exposure. We ask for a more flexible approach permitting an adjustment to increase or decrease the netting set exposure so as to match reference prices.	Adopt a more flexible approach to adjust the netting set exposure	Saif Chabi, Sarah Schmidke	European Banking Federation	Publish
123	Counterparty Credit Risk	2.3 Principles for ECB banking supervision	18	138	Amendment	Paragraph 18 states that the difference could be estimated using more sophisticated methods taking amortising transactions into account. It should be clarified that most sophisticated methods can be used not only for amortizing transactions but for all transactions once the value difference amortize even for non-amortizing transactions.	Consider non-amortising transactions	Saif Chabi, Sarah Schmidke	European Banking Federation	Publish
124	Counterparty Credit Risk	2.3 Principles for ECB banking supervision	19	138, 139	Clarification	The conditions detailed for alternative exposure calculations, in paragraph (b) of Option 2 are not clear enough. We ask for further details.	Clarify conditions for alternative exposure calculations	Saif Chabi, Sarah Schmidke	European Banking Federation	Publish
125	Counterparty Credit Risk	3.3 Principles for ECB banking supervision	23	142, 143	Amendment	We ask for the option to integrate spikes in the CCR exposure, in a way that reflects the associated economic risk, which was indeed the case of the exposure add-on approach proposed in former TRIM guide.	<p>The view of the industry to balance the framework would be to account for settlement gap risk in the exposures:</p> <ul style="list-style-type: none"> - With the fine modelling features requested in Article 23 paragraph a (i.e. asymmetry of payments during a phase whose length is closely linked to DMP) - With spikes however not subject to "effectivization". <p>Indeed, effectivization relies on the underlying assumption that transactions are rolled, extending effectivization to spikes implicitly lead to assume that spikes patterns are also reproduced in a uniform way which is empirically far to be the case. Such effectivization would then lead to</p> <ul style="list-style-type: none"> - significant overestimation of economic risk - unwarranted capital requirement volatility on a given counterparty, independently from the grid granularity, due to the sporadic nature of spikes <p>This could be illustrated with a counterparty for which a spike occurs on the day of a given cut-off:</p> <ul style="list-style-type: none"> - The effectivization would lead to account for the spike risk over the full upcoming year - On next cut-off, most probably, rollover did not induced analog spike leading to significant drop in the exposure <p>The industry also welcomes the recognition of enforceable settlement netting rules in the determination of the part of the exposure associated to trade related cash-flows.</p>	Saif Chabi, Sarah Schmidke	European Banking Federation	Publish
126	Counterparty Credit Risk	3.3 Principles for ECB banking supervision	24	143, 144	Amendment	Point (a) of Paragraph 24 is now encapsulated as an intermediary step for a newly introduces add-on, which make the framework less consistent than in former version of the TRIM guide.	<p>While industry acknowledges as best practice the integration in the exposure of the settlement gap risk on trade related cash-flows, the change of approach in current framework could act as a disincentive to implement refined modelling as intended by Article 23.</p> <p>Indeed, both ends of current alternative are imbalanced due to the "effective" vs "non-effective" way the trade related cash flows are accounted for.</p> <p>Additionally, should it be preferred, the alpha add-on approach would also come with some drawbacks such as spillover on capital requirements for unmarginated corporates counterparties or deemed insufficient modelling features on margined financial counterparties, or a loss in precision regarding individual counterparty risk exposures.</p>	Saif Chabi, Sarah Schmidke	European Banking Federation	Publish
127	Counterparty Credit Risk	4.3 Principles for ECB banking supervision	34	149	Clarification	Please explain further what the ECB admits in terms of management of future collateral composition when the non-cash collateral expires before the maturity of the netting set. It is reasonable to assume a pure replacement of non-cash collateral having the same characteristics of the expired one?		Saif Chabi, Sarah Schmidke	European Banking Federation	Publish
128	Counterparty Credit Risk	5.3 Principles for ECB banking supervision	41	152	Amendment	The paragraph should be reworded (addition in italics font). In relation to the requirements set out in Article 292(1)(b) of the CRR, and for exposures subject to IM that are within the IMM scope, the ECB considers as good practice that institutions have an IM modelling reflecting contractual arrangements for the respective netting set. In particular, if contractual arrangements provide that the IM should reflect forward variability of netting set values, the IMM modelling of the IM should take this feature into account unless the institutions demonstrate that keeping the IM constant over time does not systematically underestimate exposure.	Modelling initial margin as part of EEPE is very complex, therefore the option to treat initial margin as a constant over time should be retained (as in the initial version of the TRIM guide) if it can be shown that this approach does not systematically underestimate exposure.	Saif Chabi, Sarah Schmidke	European Banking Federation	Publish
129	Counterparty Credit Risk	6.3 Principles for ECB banking supervision	48	154	Amendment	M for open repos should be set to a 5 days fixed maturity rather than a mobile average.	An averaging rather captures maturity in a normal regime, while it is rather the drops in counterparty credit quality that would lead to shorten such transactions by exercising termination right, thus advocating for the use of short-term fixed maturity, which also have the advantage of avoiding the important operational burden that would be induced by regular computational updates of maturity parameter. This is all the more emphasized by the enforcement of Article 84, in conjunction with which variability of an average M is expected to have moderate impact on own funds requirements.	Saif Chabi, Sarah Schmidke	European Banking Federation	Publish
130	Counterparty Credit Risk	6.3 Principles for ECB banking supervision	49	154, 155	Amendment	The paragraph a) related to ETCs with optional exercise should account for risk reductions nature of such clauses in conjunction with institutions procedures in place	While the industry welcomes the recognition of ETCs with a mandatory exercise, it also advocates for a more risk sensitive framework that would then account the risk reduction nature of ETC with an optional exercise. Indeed, in contrast with transactions without any optional provisions on ETC, ETCs with an optional exercise, are a risk-reduction device. Existence of such ETCs exhibits sound risk management practices, and as long as their set up and monitoring are indeed closely integrated within the risk management framework of institutions, this risk reducing feature should be accounted for in internal modelling maturity determination.	Saif Chabi, Sarah Schmidke	European Banking Federation	Publish
131	Counterparty Credit Risk	8.3 Principles for ECB banking supervision	62	159	Amendment	We propose the following amendment: "The frequency of the recalibration of the parameters of the underlying stochastic processes (such as drift, volatility and correlation) for internal risk management should be at least quarterly and the institution should be able to demonstrate that the calibration frequency selected as required by Article 292(2) of the CRR for the calculation of capital requirements is sufficient to reflect changes in market conditions in an appropriate manner."	The adequacy of the recalibration frequency depends on the type of the calibration method (historical or market implied) and on procedures in place to identify if market conditions require a more frequent recalibration pursuant Article 292(2) of the CRR. It can be argued for instance that a monthly recalibration based on market implied data without additional controls on changing market conditions may be less satisfactory than a quarterly historical calibration with controls for changing market conditions. Besides, performing a historical calibration on a 3-year (or longer) time period at higher frequency (e.g. monthly instead of quarterly) will not on its own make the calibration much more sensitive to sudden changes in market conditions, as the part of the sample affected by such changed market conditions would anyway be small. Additional adjustments to calibration would be needed to achieve this goal. In summary, it is our view that there is no reason to stipulate that a monthly frequency is always sufficient; no reason to overwrite the minimum requirement for the calibration frequency provided by Article 292(2) of the CRR and institutions shall be required to always justify the adequacy of the selected calibration frequency.	Saif Chabi, Sarah Schmidke	European Banking Federation	Publish

132	Counterparty Credit Risk	9.3 Principles for ECB banking supervision	68	163	Clarification	<p>Hence, the ECB considers that for cases where operational parts of the validation framework, e.g. back-testing runs or benchmarking of IMM pricing functions, are conducted by staff also responsible for model design and development, the above-mentioned requirement provided for by Article 293(1)(c) of the CRR would be fulfilled if all of the following practices were implemented:</p> <p>(a) the respective validation task is conducted on behalf of the validation function; What does the statement "the respective validation task is conducted on behalf of the validation function" mean in operational terms and how could it be verified?</p>	It is not clear how to interpret the requirement that certain tasks are executed by model developers "on behalf of" the validation function.	Saif Chabi, Sarah Schmidke	European Banking Federation	Publish
133	Counterparty Credit Risk	9.3 Principles for ECB banking supervision	68	163	Amendment	<p>We propose the following amendment:</p> <p>"68. In accordance with Article 293(1)(c) of the CRR, validation/review and model development must be independent, that is, the validation function must be effectively separated from model development. Certain parts of the validation framework, e.g. back-testing runs or benchmarking of IMM pricing functions, may also be used as parts of ongoing model performance monitoring. Hence, the ECB considers that some methodological and/or operational parts of the validation framework, e.g. back-testing runs or benchmarking of IMM pricing functions, are conducted by staff also responsible for model design and development, the above-mentioned requirement provided for by Article 293(1)(c) of the CRR would be fulfilled if all of the following practices were implemented:</p> <p>(a) a regular, independent and effective challenging of the underlying methodological aspects of the respective validation task comprising scope, data samples, tools, etc., is performed by the validation function (b) in addition to the model performance monitoring tasks performed by the staff also responsible for model design and development, model validation function must perform its own independent assessment of the outcomes of the analysis required by Article 294 of the CRR. The assessment required by 68 (b) may be based on the operational parts of the validation framework, e.g. back-testing runs or benchmarking of IMM pricing functions, conducted by staff also responsible for model design and development, and not on an independent implementation thereof, only if the requirements in §68 (a) are met. (c) The judgement regarding the adequacy of the remediation measures proposed should be the responsibility of the validation function only."</p>	<p>The formulation of requirements in §68 lacks clarity and consistency. The paragraph refers to the cases "where operational parts of the validation framework e.g. backtesting" are conducted by model developers and aims to define, under which constraints such setup is deemed compliant with the requirements in Article 293(1)(c) on independent model review. The reference to "operational parts" only implies that the methodological part underlying the operational part should be designed by model validation function. But §68 (b) describes "a regular, independent and effective challenging of the underlying methodological aspects of the respective validation task" as necessary, which implies that such methodological aspects could be designed by the model development function, which may be a contradiction. Besides, the requirement in §68(a) that "the validation task is conducted on behalf of the validation function" can be interpreted in different ways and it is not clear, how this could be implemented organizationally. Finally, the requirement in §68 (3) implies that the model validation function alone should have the judgement of the outcomes of the analysis and "respective remediation measures". This requirement takes out in the view that ongoing model performance monitoring (such as back-testing or pricing comparisons) are exclusively part of model validation and fail to recognize the fact that, while being inalienable parts of validation, they are often parts of model maintenance and model risk management process. Depending on the nature, size and complexity of the institution, model monitoring and performance may be implemented differently on organizational terms, as part model development, as a separate unit or as part of model validation. Methodology for performance assessment, especially back-testing methodology, is often complex, as it uses non-trivial statistical methods. Requiring that it is developed by model validation function only may in fact increase the model risk, making an independent review of such methodology unnecessary, if it is developed by a model validation function. In our view, a setup where model performance assessment methodology is developed by either a specialized unit or model development unit and then independently assessed by the model validation function, as any component of the model to be preferable and more aligned with the intentions of the requirement in Article 293(1)(c) of the CRR. Pursuant the latter article it might be required that model validation performs its own assessment of the outcomes of the analysis as part of the validation review, without depriving the model development function or model monitoring function to have their traffic lights and initiative of remediation actions.</p> <p>The initiative of the remediation actions, naturally belonging to the model development team, and the judgement on the adequacy thereof, belonging to the model validation, is not clearly separated in the proposed text.</p> <p>It should be noted that by their very nature model validation activities are often performed at lesser frequency, than model performance monitoring tasks. It is our view that such activities are most efficient when they are performed continuously, are integrated in the model development cycle and the underlying methodology and implementation benefit from independent review.</p>	Saif Chabi, Sarah Schmidke	European Banking Federation	Publish
134	Counterparty Credit Risk	9.3 Principles for ECB banking supervision	71	164	Clarification	<p>The "or" in article 294(1) of the CRR implies that the use of hypothetical portfolios is sufficient to fulfill the article. It is correct to intend that paragraph 71 amends such article of the CRR?</p>	Article 294(1) is satisfied using hypothetical portfolios. The mandatory use of actual portfolios seems not to be cited in such article. ☐	Saif Chabi, Sarah Schmidke	European Banking Federation	Publish
135	Counterparty Credit Risk	9.3 Principles for ECB banking supervision	73	164, 165	Clarification	<p>Paragraph 73 states that institutions should ensure a comprehensive coverage of their back-testing framework by calculating back-testing coverage ratios, at least at risk factor level. Nevertheless, we ask for a definition of "risk factor due" to the lack of clarity of this concept.</p>	We ask for a definition of risk factors	Saif Chabi, Sarah Schmidke	European Banking Federation	Publish
136	Counterparty Credit Risk	9.3 Principles for ECB banking supervision	73 c)	165	Amendment	<p>We propose the following amendment:</p> <p>(c) institutions should be able to provide an explanation justifying the level of the coverage ratio."</p>	<p>There is no precise definition of how the coverage ratio shall be computed and of the granularity, at which it should be computed (except the requirement to do it by asset class and on both risk factors and portfolio levels). Institutions using stratification or clustering techniques may well achieve better representativeness of their backtesting sample than those bluntly aiming at achieving a certain threshold. An institution may be incentivised to define the sample construction methodologies and/or the metrics and granularity of the coverage ratios in a way that maximizes the chances to meet a certain coverage target rather than improve the representativeness of the sample. For instance, to achieve a 50% coverage ratio an institution may be incentivised to only include bigger counterparties in the sample. Those might have structurally different portfolios, than smaller counterparties and the representativeness of the backtesting sample will be compromised. According to the current proposal, in such cases the institution will not have to justify the construction of the backtesting sample. Hence it is our view that institutions should always be able to provide an explanation justifying the level of the ratio and fixing any particular value to secure an exemption from this requirement is counter-productive.</p>	Saif Chabi, Sarah Schmidke	European Banking Federation	Publish
137	Counterparty Credit Risk	9.3 Principles for ECB banking supervision	75	165	Clarification	<p>It is reasonable to assume a validation cycle of the pricing functions that relies not only on the analyses directly performed by the Internal Validation but also on activities performed by members of the Risk Management unit and supervised by Internal Validation, as reported in art. 68?</p>		Saif Chabi, Sarah Schmidke	European Banking Federation	Publish
138	Counterparty Credit Risk	9.3 Principles for ECB banking supervision	76	165	Clarification	<p>As cited in previous comments, the inclusion of back-testing of actual portfolios seems not to be mandatory (CRR art 294(1)). That said it would be useful to better explain what is intended for consistency: it may refer to portfolio consistency (easier for new transactions but harder for closed-out transactions) but also to model consistency, pricing function consistency, instrument mapping consistency and/or market data consistency.</p> <p>With regard to portfolio consistency, a lot of technical issues may arise in case of close-out transactions: all the predictions for the horizons after the close-out transaction date must be re-performed based on the new netting set without those close-out transactions. It is our view that this may lead to storage limitations: it is not feasible to store all the MC scenarios at transaction level, for each actual netting set, for each prediction date. In addition, it is not possible to quantify the amount of collateral to be exchanged in case of portfolios made of rolling instruments.</p>	It is our view that too much effort is requested in order to keep consistency (any of the previous) between predictions and realizations within the actual back-testing.	Saif Chabi, Sarah Schmidke	European Banking Federation	Publish
139	Counterparty Credit Risk	9.3 Principles for ECB banking supervision	77	165	Clarification	<p>Please explain how the exposure measure is defined. In case of the exposure defined as in Article 272(4), please better explain how to treat possible forecast distributions all equal to zero, i.e. when the expected values (collateralized or not) are all negative. This also applies to the PFC or EPC risk measures.</p> <p>It is our view that the best way to test the prediction model is to use the whole distribution of (positive and negative) exposure, defined as the difference between the MM and Collateral. In the case of unmarginated netting sets, the collateral is zero.</p> <p>It is possible to better define what is intended for "separate validation" of the margining process?</p>		Saif Chabi, Sarah Schmidke	European Banking Federation	Publish

140	Counterparty Credit Risk	9.3 Principles for ECB banking supervision	79	166	Clarification	In our understanding, the exercises requested in paragraph 79 should be performed at hypothetical level only, e.g. isolating sample trades and back testing their behavior. Is this interpretation acceptable?		Saif Chabi, Sarah Schmidtke	European Banking Federation	Publish
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